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ABSTRACT

This report, one of a series, analyzes states' decisions on how to use block grant funds. Under block grants, states obtained greater decision-making authority to set program priorities and determine the use of funds than they had under the prior categorical programs. At the same time, federal appropriations to states under block grants were generally less than under the former programs. Accordingly, states employed three major strategies during 1982 and 1983 to mitigate the effect of initial federal funding reductions that occurred in most block grants. These included (1) taking advantage of available funds from the prior categorical programs, (2) transferring funds from among block grants, and (3) increasing the use of state funds. However, the applicability of these strategies varied by block grant. Overall, program areas that had been funded under the categorical programs continued to receive support under the block grants, though changes in funding patterns emerged as states established their own priorities in dealing with limited funds. An appendix lists General Accounting Office (GAO) reports issued to date on implementation of block grants. (TE)

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

ED256024

Block Grants Brought Funding Changes And Adjustments To Program Priorities

Under block grants, states obtained greater decision-making authority to set program priorities and determine the use of funds than they had under the prior categorical programs. At the same time, federal appropriations to states under the block grants were generally less than under the former programs. In addition, states' increased programmatic discretion was tempered in some cases by legislative requirements that states continue to fund former grantees or allocate specific percentages of block grant funds to particular program areas.

States employed three major strategies during 1982 and 1983 to mitigate the impact of initial federal funding reductions that occurred in most block grants. These included (1) taking advantage of available funds from the prior categorical programs, (2) transferring funds among block grants, and (3) increasing the use of state funds. However, the applicability and use of these strategies varied by block grant.

Overall, program areas that had been funded under the categorical programs continued to receive support under the block grants. Although such continuity was evident, changes in funding patterns did emerge as states sought to establish their own priorities while dealing with limitations on available funds. States began to put their imprint on funding patterns, but changes varied among the block grants.

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To the President of the Senate and the
Speaker of the House of Representatives

At the request of the Chairman, Senate Committee on Governmental Affairs, as well as other congressional committees, the General Accounting Office reviewed the implementation of the block grants created by the Omnibus Budget Reconciliation Act of 1981. This report analyzes states' decisions on how to use block grant funds. It is one in a series we are issuing on block grant implementation.

Copies of this report are being sent to the appropriate House and Senate committees; the Secretaries of Health and Human Services and of Education; the Director, Office of Management and Budget; and the governors and legislatures of the states we visited.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BLOCK GRANTS BROUGHT FUNDING CHANGES AND ADJUSTMENTS TO PROGRAM PRIORITIES

D I G E S T

The Omnibus Budget Reconciliation Act of 1981 substantially changed various federal domestic assistance programs by consolidating numerous categorical programs into nine block grants and shifting primary administrative responsibility to states. These block grants cover a wide range of areas, including health services, social services, low-income energy assistance, community services, and education. States were given additional authority to determine the use of funds in these areas, but the amount of federal appropriations made available under the block grants was generally less than that provided under the former categorical programs.

As a result, a central issue surrounding block grant implementation has been how states used their expanded decision-making authority and reacted to changes in the level of federal funding. This report describes trends in funding decisions made by 13 states for seven block grant programs. It is one in a series GAO is issuing on block grant implementation.

Earlier reports focused on each block grant and included detailed information on state fiscal decisions and how funding for program areas supported by block grant funds compared to that provided under the prior categorical grants. GAO did its work in 13 states: California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington. This report is based on these states' implementation of seven block grants--alcohol, drug abuse, and mental health; community services; education; low-income home energy assistance; maternal and child health; preventive health and health services; and social services. It does not discuss two additional block grants created in 1981 because only 1 of the 50 states accepted the primary care health block grant and because GAO's earlier study on the small cities community development block grant was done in different states.

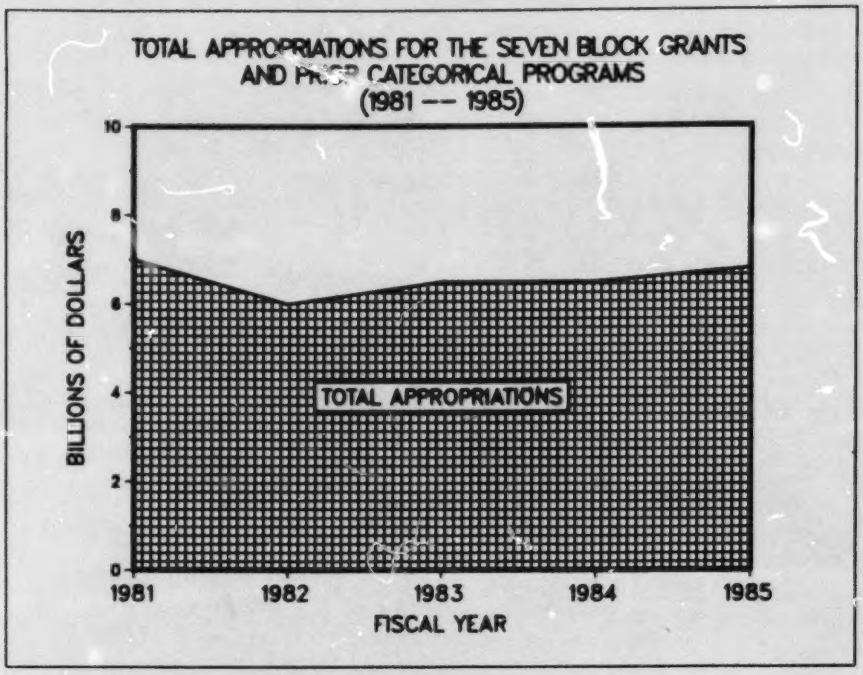
For the seven block grants reviewed, the 13 states received about 46 percent of 1983 national block grant appropriations and account for about 48 percent of the nation's population. While these states represent a diverse cross-section, the results of GAO's work cannot be projected nationally.

BLOCK GRANTS BRING EXPANDED AUTHORITY AND CHANGES IN FEDERAL FUNDING

The block grant programs brought states greater authority to set priorities and determine the use of funds than they had under the prior categorical programs. States were also given the authority to transfer funds among certain block grants. In some block grant programs, however, this increased programmatic discretion was tempered by requirements that states continue to fund former grantees or allocate specific percentages of block grant funds to particular program areas. (See pp. 1 to 2.)

Enactment of the block grants was typically accompanied by federal funding levels lower than those provided under the prior categorical programs. As shown in the chart on the following page, total appropriations for the seven block grants implemented in fiscal year 1982 were about $6 billion in that year, or 15 percent below the 1981 categorical level of $7 billion. Some of the 1982 cuts, however, were restored through increased appropriations in 1983 through 1985 and, for 1983 only, through funds made available under the Emergency Jobs Appropriations Act.

Changes in federal funding levels for the individual block grants varied considerably. The low-income home energy assistance program was the only block grant to receive increased appropriations every year during the 1982-85 period. Of the remaining six block grants, only maternal and child health experienced increases in federal funding over this period above the 1981 categorical level. Federal funding for the other five block grants has remained from 1 to 29 percent below categorical levels. (See p. 8.)



STATES USE ALTERNATIVE FUNDING SOURCES TO MITIGATE FEDERAL FUNDING REDUCTIONS

Three strategies emerged during 1982 and 1983 which mitigated the initial federal funding reductions that occurred in most block grants. These involved states (1) taking advantage of available funds from the prior categorical programs, (2) transferring funds among block grants, and (3) increasing the use of state funds. However, the applicability and use of these strategies varied greatly by block grant.

State and local service providers in the 13 states were able to operate certain block grant programs well into fiscal year 1982 with 1981 categorical funds. This was possible because many prior categorical grants were project grants awarded to states and other entities at various times during fiscal year 1981, and many extended into fiscal year 1982. This overlapping funding helped offset the immediate impact of 1982 federal funding reductions and enabled states to carry block grant funds into future years. (See pp. 8 to 10.)

Tear Sheet

The 13 states also transferred a combined total of about $125 million among the block grants in 1982 and 1983. About $112 million, or 90 percent, entailed moving funds from the low-income home energy assistance block grant to the social services program. This trend was influenced by the fact that the social services block grant experienced the largest dollar reduction and did not benefit from overlapping categorical funding, while the low-income home energy assistance block grant received increased federal appropriations. (See pp. 10 to 11.)

States also used their own funds to help offset reduced federal funding, but only for certain block grants. Most of the 13 states did not use state funds to help support programs funded with community services, education, and low-income home energy assistance block grant moneys. However, in the vast majority of cases, the 13 states increased their contribution to programs supported with funds from the health and/or social services block grants. Although such increases varied greatly from state to state, overall increases ranged from 9 percent in preventive health and health services to 24 percent in maternal and child health between 1981 and 1983.

This rise in state contributions, along with the overlapping categorical funding in the health block grants and the transfer of low-income home energy assistance funds into social services, led to increases in total program expenditures from 1981 to 1983 in about three-fourths of the cases in the 13 states. However, once the growth in total expenditures was adjusted for inflation, this number dropped to about one-quarter. (See pp. 11 to 13.)

STATES BEGIN PUTTING THEIR IMPRINT ON FUNDING PATTERNS

Overall, program areas that had been funded under the categorical grants continued to receive support under the block grants in the 13 states. While such continuity was evident, changes in funding patterns did emerge as states sought to establish their own priorities while coping with limitations on available funds. Although states began to exercise their expanded decision-making authority, the extent and type of changes varied among the block grant

programs. Some of the major patterns that emerged are highlighted below.

--Under the maternal and child health and the preventive health and health services block grants, the 13 states in general tended to provide more support for program areas over which they formerly had greater control, such as crippled children's services and fluoridation, and relatively less support for program areas which previously were primarily federally controlled or mandated, such as lead-based paint poisoning prevention and emergency medical services. (See pp. 13 to 15.)

--Although changes varied considerably by state under the social services block grant, the 13 states usually gave a higher priority to adult and child protective services; adoption and foster care; home-based services; family planning; and employment, education, and training, while many tightened eligibility standards for day care services and decreased expenditures for a wide range of other services. (See pp. 16 to 17.)

--Under the community services block grant, 9 of the 13 states introduced new methods for distributing funds that included poverty-based factors. Such changes and the substantial decrease in federal assistance led to funding changes for many service providers; over 90 percent that received funds in 1981 had their funding reduced in 1983. (See pp. 17 to 18.)

--While heating assistance remained the major program activity under the low-income home energy assistance block grant, heating expenditures tended to decline as most of the 13 states increased funding for weatherization and crisis assistance, transferred funds to other block grants, and carried over energy funds into the next year. (See p. 18.)

Program changes were less evident in the alcohol, drug abuse, and mental health block grant in part due to legislative provisions controlling the allocation of funds among the three program areas. Under the education block grant, states were required to pass on at least 80 percent of their allocation to local education

agencies, which have virtually complete control over the use of these funds. Thus, state authority was limited to deciding how to use the remaining 20 percent, and state program officials reported that funds retained by the states were generally used to support activities similar to those funded under the prior categorical programs. GAO estimated that over 50 percent of the funds used by local education agencies funded in the 13 states were spent on instructional materials and equipment. (See pp. 15 to 16 and 19 to 20.)

CONCLUDING OBSERVATIONS

The federal funding reductions accompanying block grant implementation were mitigated by a unique set of circumstances, primarily the overlapping awards from the prior categorical programs and the additional moneys made available through federal emergency jobs legislation. These factors, along with increased state contributions and transfers between block grants, helped promote more fiscal stability than would otherwise have been possible given the reductions in federal funding.

However, the inability of available funding to keep pace with inflation and states' desires to exercise their expanded authority contributed to numerous changes in the funding patterns established under the prior categorical programs. Although federal funding for the block grants stabilized during 1983 and 1984, states are likely to be confronted with rising program costs and increased demands for services. As a result, the next few years will be pivotal ones for the block grant programs and the people they serve, as states and their constituencies debate how to set program priorities and allocate funds to meet recipient needs as well as whether, and to what extent, state funds should be contributed to maintain program services.

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ABBREVIATIONS

ADAMH	alcohol, drug abuse, and mental health
CSBG	community services block grant
ED	education
GAO	General Accounting Office
LEA	local education agency
LIHEA	low-income home energy assistance
MCH	maternal and child health
PHHS	preventive health and health services
SSBG	social services block grant

CHAPTER 1

INTRODUCTION

As part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), the Congress consolidated about 80 categorical grant programs into nine block grants covering a wide range of domestic assistance areas. Four block grants relate to health services, and one each to social services, low-income energy assistance, education, community development, and community services. These block grants provided states with greater decision-making authority than the prior categorical programs. As a result, there has been considerable interest in how states are carrying out their responsibilities.

One central issue relates to decisions states have made on how to use block grant funds. States were faced with decreases in federal funding levels under most block grants compared with funding under the prior categorical programs. However, the extent of these funding changes varied greatly by block grant. At the same time, states' authority to decide how funds would be used under all of the block grants was altered. The degree of authority states obtained, however, varied widely by block grant with restrictions ranging from stringent earmarking requirements to virtually complete discretion.

This report discusses how 13 states have reacted to the changes in federal funding levels and their altered decision-making authority under the block grants. In addition, it highlights how states' fiscal decisions concerning program areas supported by each block grant compared to those made under the prior categorical programs. This report is one of a series being issued on state implementation of the block grants (see app. I). Earlier reports focused on specific block grants and summarized our conclusions on a range of issues, including public accountability as well as organization and management changes. These reports also included detailed information on state funding decisions for each of the block grant programs. This report describes trends across the block grants regarding states' decisions on how to use the block grant funds.[1]

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[1]This report is based on information gathered on seven of the nine block grants enacted in 1981. Our analyses of the small cities community development block grant dealt with different states and preceded the study of the other block grants because that work had to be completed for reauthorization hearings in early 1983. The primary care block grant was omitted because only one state chose to administer it.

BLOCK GRANTS ESTABLISH NEW PARAMETERS FOR STATE DECISION MAKING

The block grant legislation reduced the federal role in several domestic assistance areas and gave states principal administrative and programmatic responsibility for a range of block grant programs. Under block grants, states receive the funds, whereas many of the programs they replaced involved some direct federal to local funding. Additionally, under block grants, states select recipients and establish program priorities and requirements, whereas under many of the prior categorical programs, federal agencies performed these functions.

The block grant legislation gives states discretion to fund activities within broadly defined areas. Within certain legislative limits, states are responsible for determining needs, setting priorities, allocating funds, and establishing programmatic standards. They also can transfer funds among certain block grants.

Although states have been given greater discretion, certain block grants contain restrictions that affect the allocation of funds. Two block grants--community services and education--require states to pass through the vast majority of funds to local recipients. Also, the preventive health and health services and the alcohol, drug abuse, and mental health block grants required continued funding of certain grantees or specific percentage allocations for particular purposes.[2]

OBJECTIVES, SCOPE, AND METHODOLOGY

This report's objectives are to address the key issues surrounding states' decisions on how block grant funds would be used, including

--how federal funding levels have changed,

--what states have done to deal with federal funding changes, and

--what decisions states have made regarding specific programs to be supported with block grant funds.

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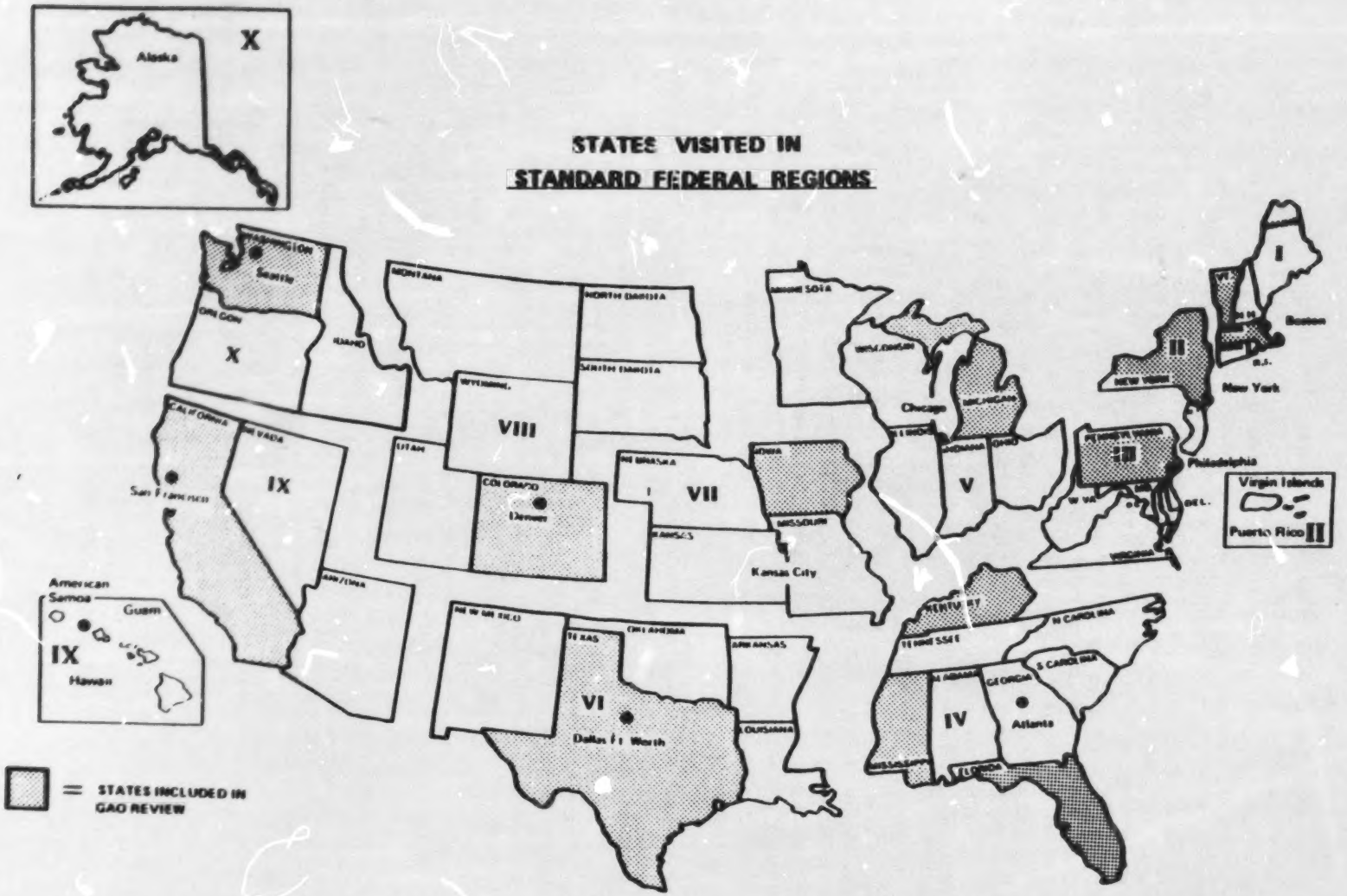
[2]A description of the legislative restrictions for each block grant is contained in the applicable block grant report (see app. I).

As shown in the map on the following page, we conducted our work in 13 states: California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington. These states were selected to attain geographic balance and to include states with (1) differing fiscal conditions and varying ranges of per capita incomes, (2) varying degrees of involvement by state executive and legislative branches in overseeing and appropriating federal funds, and (3) varying service delivery systems. At least one state was selected in every standard federal region, and in total, the 13 states accounted for about 46 percent of all 1985 block grant funds and about 48 percent of the nation's population. Our sample of 13 states represents a judgmental selection. Therefore, our results may not be projected to the nation as a whole.

This report focuses on seven of the nine block grants enacted in 1981: maternal and child health services (MCH); preventive health and health services (PHHS); alcohol, drug abuse, and mental health services (ADAMH); social services (SSBG); community services (CSBG); low-income home energy assistance (LIHEA); and education (ED). Total national appropriations for these block grants averaged about $6.3 billion a year for fiscal years 1982-84.

We used schedules specifically designed for each of the seven block grants to develop financial information for the period 1981-83. The purpose of these schedules was to obtain the best available data on trends in how states, and in some cases local grantees, were using block grant funds in addition to other sources of funds for programs supported by the block grants. The financial schedules were designed to collect data as consistently as possible across all block grants. However, the schedules had to be tailored to each block grant because of inherent variations in the characteristics of the programs, the ways in which the grants were administered, and the degree of states' involvement with, and knowledge of, the prior categorical programs.

All financial schedules were externally reviewed prior to their use. While the extent of review varied, one or more knowledgeable federal officials or individuals from other organizations provided their comments and discussed their observations with us. For example, the financial schedules for the six block grants administered by the Department of Health and Human Services were developed in close consultation with federal officials from that Department, the Urban Institute, and for certain health programs, the Association of State and Territorial Health Officials.


STATES VISITED IN
STANDARD FEDERAL REGIONS
X
Alaska
Seattle
X
VIII
Denver
IX
San Francisco
VII
Kansas City
V
Chicago
I
Boston
II
New York
III
Philadelphia
Virgin Islands
Puerto Rico
American Samoa
Guam
IX
Hawaii
VI
Dallas Ft Worth
IV
Atlanta
= STATES INCLUDED IN GAO REVIEW

Our staff worked with state program and budget officials to obtain and clarify the data available at the state level needed to complete the financial schedules. In some cases, data had to be obtained directly from prior local grantees or federal sources. Once the schedules were completed, state officials were asked to review the data to ensure that they accurately represented trends in the use of categorical and block grant funds during the 1981-83 period. Our summaries were modified, where appropriate, on the basis of comments provided by state officials. Most of our fieldwork for this report was carried out between January 1983 and June 1984. Additionally, our work was done in accordance with generally accepted government auditing standards.

We completed financial information schedules for each of the seven block grants in each of the 13 states. Detailed analysis of this information by individual block grant is contained in each of our earlier reports on these programs (see app. I). This report draws upon the information presented in these earlier reports to describe trends in state funding decisions across the seven block grants. We did not seek comments from federal administering agency officials on this report. They commented on each of our earlier detailed reports on the individual programs and concurred with our conclusions.

CHAPTER 2

QUESTIONS AND ANSWERS ABOUT FEDERAL BLOCK GRANT FUNDING AND STATE FUNDING DECISIONS

This chapter addresses the key questions surrounding funding trends under the block grants, including states' decisions on how to use block grant funds, given changes in federal funding levels and the varying amounts of authority offered to states under each block grant. Specifically, these questions focus on

--the specific changes that occurred in federal funding levels under the block grants as compared to federal funding under the prior categorical programs,

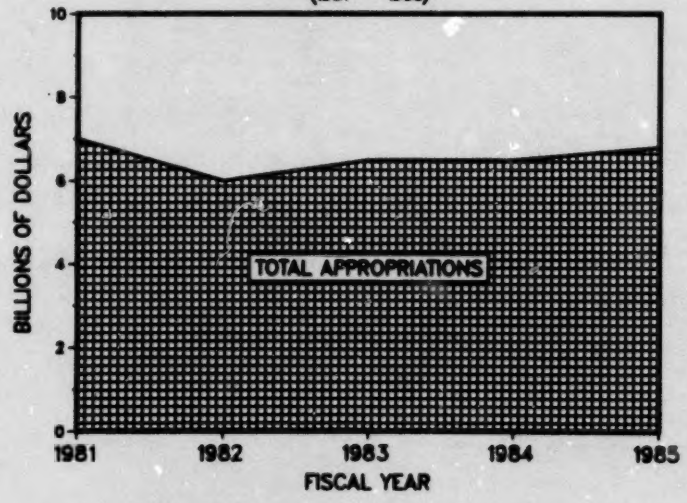
--the strategies states used to cope with federal funding changes, and

--the effect of states' block grant funding decisions on the funding patterns that existed under the prior programs.

DID CHANGES OCCUR IN FEDERAL FUNDING LEVELS UNDER THE BLOCK GRANTS?

Yes, initial federal block grant appropriations were lower than those for the prior programs for all block grants except LIHEA. As shown in chart 1, total appropriations for the seven block grants in 1982 were about $6 billion--a 15-percent decline from the approximate $7 billion available for the categorical programs in 1981. Federal funding levels for the block grants increased to approximately $6.5 billion in 1983 and 1984, as some of the 1982 cuts were restored through increased appropriations and, in 1983, funds made available under the Emergency Jobs Appropriations Act (Public Law 98-8).

CHART 1
TOTAL APPROPRIATIONS FOR THE SEVEN BLOCK GRANTS
AND PRIOR CATEGORICAL PROGRAMS
(1981 — 1985)



WITH THE ADVENT OF BLOCK GRANTS IN 1982, TOTAL FEDERAL APPROPRIATIONS DECREASED FROM $7 BILLION TO $6 BILLION. ALTHOUGH APPROPRIATIONS HAVE INCREASED SINCE 1982, TOTAL FEDERAL FUNDING HAS NOT REACHED THE CATEGORICAL LEVEL OF 1981.

Overall, federal appropriations for the seven block grants continued to increase for 1985, but the changes varied considerably by block grant, as shown in table 1. The LIHEA block grant received increased appropriations every year during the 1982-85 period. With the exception of the MCH block grant, the remaining block grants received less federal appropriations in each fiscal year during the same period. MCH received more appropriations in fiscal years 1983 and 1985, but less in fiscal years 1982 and 1984 when compared to the fiscal year 1981 levels.

Table 1

Total Appropriations for Block Grants and Prior Programs (1981-85)

Block grant	1981	1982	1983	Percent change 1981-83	1984	1985	Percent change 1981-85
	----(millions)----				(millions)		
MCH	$ 455	$ 374	$ 478[a]	5	$ 399	$ 478	5
PHHS	93	82	86	(8)	88	90	(3)
ADAMH	585	432	469[a]	(20)	462	490	(16)
LIHEA	1,850	1,875	1,975	7	2,075	2,100	14
SSBG	2,991	2,400	2,675[a]	(11)	2,675	2,700	(10)
CSBG	525	366	386[a]	(26)	352	372	(29)
ED	536	470	479	(11)	479	532	(1)
Total	$7,035	$5,999	$6,548	(7)	$6,530	$6,762	(4)

[a]Includes appropriations from the Emergency Jobs Appropriations Act.

DID STATES USE OTHER SOURCES OF FUNDS TO COPE WITH THE FEDERAL FUNDING REDUCTIONS?

Yes, three strategies emerged during 1982 and 1983 which had a major impact on mitigating the initial federal funding reductions that occurred in most of the block grants. They were

--taking advantage of the continued availability of categorical funds during early block grant implementation,

--transferring funds among the block grants, and

--increasing state funds for those programs jointly supported with state and block grant moneys.

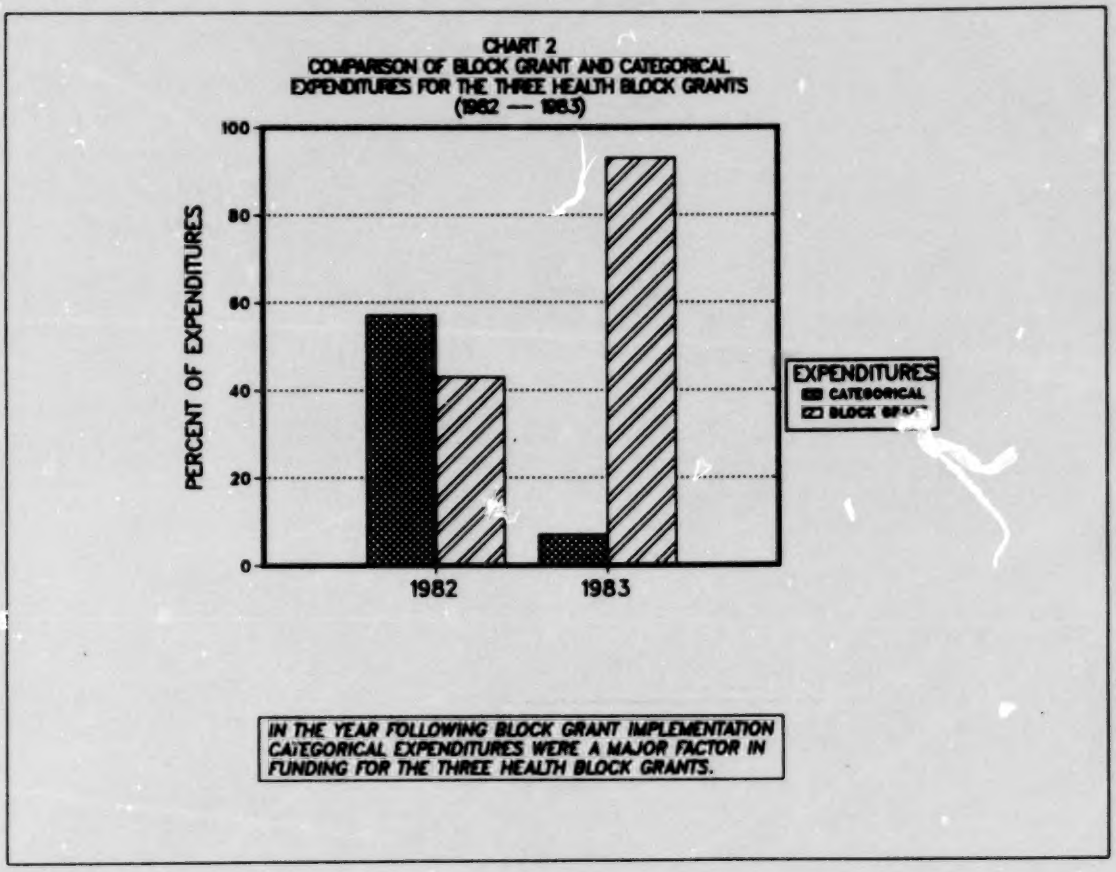
However, as discussed below, the applicability and use of these strategies varied greatly among states and block grants.

Categorical outlays ease adjustments to reduced funding in certain block grants

Many prior categorical programs for five of the seven block grants were project grants, or had a project grant component, funded for at least a 12-month period. These grants were

awarded to state and other entities at various times during fiscal year 1981, many in the last quarter. As a result, many state and local service providers could continue to operate certain programs well into fiscal year 1982 with 1981 categorical funds, thereby helping offset the immediate impact of the 1982 federal funding reductions.

This overlapping funding had a significant impact on expenditures for programs supported by the three health block grants--ADAMH, PHHS, and MCH. In the 13 states we visited, at least 57 percent of the 1981 categorical awards preceding each of these programs extended into 1982. Consequently, as shown in chart 2, aggregate categorical outlays under these three block grants comprised 57 percent of respective total 1982 categorical and block grant expenditures for those states operating the health block grants during that year. By 1983 categorical funds had declined to 7 percent of total block grant and categorical expenditures.



Although few categorical funds were being expended by 1983, they had enabled states to reserve health block grant funds for future years. For example, in ADAMH, the 12 states we visited that operated the block grant during 1982 were, in total, able to carry forward about 50 percent of their 1982 block grant awards into 1983 and about 27 percent of their 1983 awards into 1984.

Continuing categorical funds were also an important source of funding in CSBG and the ED block grant. For example, 87 percent of 1981 categorical awards preceding CSBG in the 13 states extended into 1982. While ongoing categorical outlays generally made more funds available in 1982, it was not practical to quantify the impact of overlapping funding for these two block grants because of the large number of prior categorical programs and the fact that many awards went directly from the federal government to local service providers. Ongoing categorical outlays were not available for SSBG or the LIHEA block grant because the prior categorical programs had been funded on a formula basis, and moneys were generally used during the 12-month period coinciding with the federal fiscal year.

Transfer of energy funds to SSBG was a widely used strategy

The 13 states selectively exercised their legislative authority to transfer funds among certain block grant programs. These states shifted a combined total of about $125 million among the block grants in 1982 and 1983. However, this option was used primarily to shift funds from LIHEA to SSBG, as illustrated in chart 3. The transfer option was used infrequently between other block grants.

This trend in block grant transfers was influenced by a combination of three major factors. First, federal funding reductions for SSBG were by far the largest dollar cut among all the block grants--about $600 million in 1982 alone. Second, because SSBG did not have ongoing categorical outlays, federal funding reductions had a more immediate impact. State officials frequently cited this as an important reason for transferring LIHEA funds into SSBG. Third, LIHEA was the only block grant for which federal appropriations distributed to states increased in both 1982 and 1983, with these funds going up $111 million (6.4 percent) and $99 million (5.3 percent), respectively.

CHART 3

MILLIONS OF DOLLARS TRANSFERRED BY 13 STATES AMONG BLOCK GRANTS IN YEARS 1982 AND 1983

Selected block grants receive increased state funding

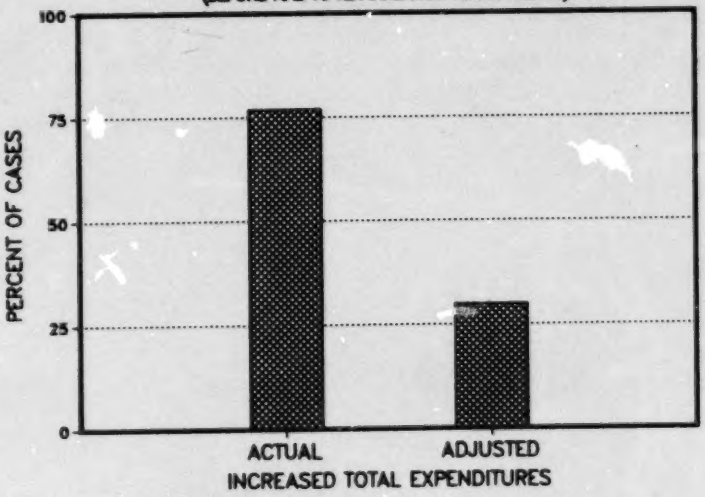
States also used their own funds to help offset the effect of reduced federal funding under block grants. They exercised this option extensively for the health and social services block grants--areas of longstanding state involvement. Expenditures of state funds for programs supported with block grant moneys increased between 1981 and 1983 in 85 percent of the cases where the states we visited had operated the health and social services block grants since their initial availability in 1982.[1]

[1]The number of the 13 states operating the block grants for the entire 2-year period were 11 each for MCH and PHHS, 12 for ADAMH, and 13 for SSBG, which is a total of 47 cases.

The magnitude of the increases, however, varied considerably, ranging from 10 percent or less in about one-fourth of the cases to more than 40 percent in one-third of the cases.

The overall increases in the expenditure of state funds for those states operating the health and social services block grants in 1982 and 1983 ranged from 9 percent in PHHS to 24 percent in MCH between 1981 and 1983. These increases, combined with the overlapping categorical funding in the health block grants and the transfer of LIHEA funds into SSBG, led to an increase in total program expenditures in most cases for states operating the health and social services block grants. As shown in chart 4, total expenditures rose in 77 percent of the cases for these block grants. However, once inflation was considered, the cases still showing a growth in total expenditures dropped to 30 percent.

CHART 4
PERCENT OF CASES WITH INCREASED TOTAL EXPENDITURES FOR HEALTH AND SOCIAL SERVICES BLOCK GRANTS BETWEEN 1981 AND 1983 (BEFORE AND AFTER INFLATION ADJUSTMENTS)



FOR THE HEALTH AND SOCIAL SERVICES BLOCK GRANTS THREE-QUARTERS OF THE CASES EXPERIENCED INCREASED EXPENDITURES OVER CATEGORICAL LEVELS. HOWEVER, AFTER ADJUSTING FOR INFLATION ONLY 30 PERCENT SHOWED INCREASED EXPENDITURES.

The increases in total expenditures remaining after adjusting for inflation were mainly in the MCH and ADAMH block grants, whereas total expenditures declined in almost all cases for PHHS and SSBG.

Aside from the health and social services block grants, states did not make great use of their own revenues to offset reduced federal funds. None of the 10 states without state-supported community services activities before CSBG provided state funding for such activities during 1982 or 1983. Also, although the three states that previously supported community services continued to do so under CSBG, the level of state funding decreased or remained relatively stable during the same period. Reduced federal funding was not an issue in LIHEA, and only 3 of the 13 states contributed their own funds to these activities during 1982 and 1983. Although state funding for education in general rose in the 13 states, only 3 states reported using state funds during the first 2 years following block grant implementation to support education programs consolidated into the block grant.

HOW DID STATES' USE OF FUNDS UNDER THE BLOCK GRANTS AFFECT THE FUNDING PATTERNS THAT HAD EXISTED UNDER THE PRIOR PROGRAMS?

Overall, program areas funded under the categorical grants generally continued to receive support under the block grants. Although continuity in funding patterns was evident, certain changes did emerge as states sought to establish their own program priorities while dealing with federal funding reductions. As the depth of federal funding cuts and the flexibility given to states varied considerably by block grant, so too did the amount and degree of change in funding trends. The sections below present the highlights of these funding trends by block grant.

States modify funding patterns for MCH program areas

Under the MCH block grant, support for program areas funded by the prior categorical programs continued in the 13 states with few exceptions. However, shifts in priorities were evident as states moved to provide more support for broad program areas where there was a historically high level of state involvement and financial commitment. In contrast, certain more narrowly targeted program areas that had been mandated or directly funded by the federal government tended to receive less support.

For the states we visited accepting the MCH block grant in the beginning of 1982,[2] crippled children's services and maternal and child health program areas together accounted for 92 percent of total MCH expenditures in both 1981 and 1983. Additionally, funding remained stable or increased in about two-thirds of the states for maternal and child health and for crippled children's services in 1983 when compared to the year preceding block grant implementation. These two program areas generally covered a wide variety of activities and previously received substantial state support compared to other program areas consolidated into the MCH block grant.

Also, funding for hemophilia diagnostic and treatment centers, genetic disease testing and counseling, and adolescent pregnancy prevention each increased between the year preceding block grant implementation and 1983 in at least 50 percent of the states where expenditures were analyzed for these programs. However, funding trends for these smaller program areas were significantly influenced by continued direct federal support from ongoing categorical funds and the federal set-aside funds authorized under the block grant rather than by state funding decisions.

In contrast, funding for other narrowly targeted program areas, for which continued direct federal support was not widely available, tended to decline. This was the case for lead-based paint poisoning prevention and sudden infant death syndrome, which experienced decreased expenditures between the year preceding block grant implementation and 1983 in 88 and 67 percent of the states operating these respective programs. Also, reduced funding was the predominant trend for narrowly focused projects under the formerly required program of projects portion of the maternal and child health program area, as states sought to serve needs using broader state programs.

PHHS funding trends reflect state program choices

As with MCH, prior categorical program areas included in the PHHS block grant continued to receive support in the 13 states after 1981, but adjustments were made to better coincide with state priorities and limitations on available funds. States tended to maintain or increase funding for those program areas where they formerly had considerable control over the use

[2]Two of the 13 states--New York and California--did not accept responsibility for the MCH block grant until the last quarter of 1982. The other 11 began implementation in the first quarter of 1982.

of funds and, to a certain extent, were already tailored to meet their needs. Conversely, funding tended to decline for program areas where states previously had less program and funding discretion.

Between the year preceding block grant implementation and 1983, health incentive, hypertension, health education and risk reduction, and fluoridation funding increased or remained stable for each program area in at least 8 of the 13 states. States previously had considerable control over these categorical program areas. In contrast, funding for emergency medical services and urban rat control generally received less emphasis under the block grant. Expenditures decreased in 6 of the 8 states spending money for urban rat control and in 10 of the 13 states supporting emergency medical services between the year preceding block grant implementation and 1983. States had less discretion over the use of funds for these prior categorical programs, with many grants bypassing state agencies and going directly to local service providers.

No major funding shifts under ADAMH block grant

Overall, trends for funding of program areas under the ADAMH block grant showed little change between the year preceding block grant implementation and 1983. Authorizing legislation for this block grant required that a specified percentage of a state's allotment--95 percent in 1983--be used to support mental health and substance abuse services proportionally to the state's use of federal funds for these services in certain prior years. Moreover, states had to certify that at least 35 percent of substance abuse funds go to alcohol abuse, at least 35 percent to drug abuse, and at least 20 percent of those amounts to prevention programs in each year. These earmarking provisions limited states' ability to make major program funding changes.

While some shifts occurred in the proportion of total ADAMH funding for the three program areas, changes did not indicate a major shift in state priorities. Between the year preceding block grant implementation and 1983, for the 10 states where complete data were available by program area, the proportion of funding devoted to alcohol abuse programs decreased in 3 states, remained relatively stable in 5, and increased in 2. The proportion for drug abuse programs decreased in four states and remained relatively stable in six, while the share of total funding for mental health programs remained relatively stable in seven states and increased in three. Moreover, the largest proportional shifts among the program areas in the 10 states were 7-percent increases in the shares for alcohol abuse in Texas and for mental health in Washington.

Although major shifts in emphasis have not occurred, funding for drug abuse programs had declined most frequently with 6 of 12 states where substance abuse data were available showing actual dollar decreases between the year preceding block grant implementation and 1983. In comparison, alcohol abuse funding decreased in 2 of these 12 states, and mental health funding increased or remained relatively stable in all 10 states where mental health data were available. However, in only three states for alcohol abuse, one state for drug abuse, and three states for mental health were actual dollar changes--increases or decreases--greater than 20 percent.

State priorities unfold under SSBG

Although overall funding for most SSBG service areas increased between 1981 and 1983, the individual percentage increase covered a wide range. Moreover, funding patterns for service areas varied considerably by state, reflecting states' individual priorities. In addition, states changed specific services and client eligibility criteria to better reflect their needs.

Overall, expenditure increases by service area for all 13 states between 1981 and 1983 ranged from 40 percent for employment, education, and training to 1 percent for child day care. The greatest dollar increase was about $201 million, which represented a 23-percent increase in the largest program area, home-based services. The one service area experiencing a reduction in total expenditures between 1981 and 1983 was other services, which included a wide range of activities that varied from state to state. Also, as shown in table 2, expenditure changes for service areas varied considerably by state. States tended to give a higher priority to adult and child protective services; adoption and foster care; home-based services; family planning; and employment, education, and training.

Table 2

SSBG Expenditure Trends by Service Area[a] (1981-83)

Service area	Number of states with increases or no change	Percent range of increases	Number of states with decreases	Percent range of decreases
Home-based services	8	0 - 119	4	(9) - (85)
Child day care	6	4 - 26	5	(6) - (43)
Adoption and foster care	9	4 - 145	1	(3)
Child protective services	8	0 - 154	0	
Family planning	7	5 - 44	4	(3) - (100)
Adult protective services	9	10 - 110	1	(9)
Employment, education, and training	5	14 - 173	1	(27)
Information and referral	2	21 - 79	3	(22) - (25)
Other services	6	3 - 33	5	(17) - (36)

[a]For each service area, includes only states where comparable data were available. Changes of less than 1 percent are counted as no change.

Although states have made few additions or deletions to their major service areas, the changes in expenditures, as well as modifications in services provided, reflect varied emphasis in the states. Additionally, many states altered the criteria for determining client eligibility, with the most frequently reported changes tightening the eligibility standards for day care services.

States change methods for distributing funding to CSBG providers

Legislative requirements directed states to use 90 percent of their CSBG allotments to fund certain categories of previously funded providers. While this in large part dictated which providers could receive assistance, 9 of the 13 states introduced new methods for distributing funds that included poverty-based factors. These new formulas, combined with the need to adjust to substantially decreased federal funding, changed funding levels for many providers.

Over 90 percent of all providers in the 13 states that had received federal community services grants in 1981 had their funding reduced in 1983--including nearly one-fourth that received no CSBG funding in that year. Most types of providers experienced cuts, but they were less severe for community action agencies--which were most clearly aided by the 90-percent requirement--than for other types of organizations, such as Indian tribes and limited purpose agencies.

Generally, states permitted local service providers to be the principal decision makers for services to be offered, as they had been under the prior categorical programs. Although not representative of the entire universe of providers, we visited a diverse group of 47 local organizations to obtain examples of how they had fared under CSBG. These providers were faced with differing local needs and conditions and had adopted widely varying strategies to deal with reduced federal funding. These strategies included seeking alternative funding sources, increasing the use of volunteers, and making adjustments to services offered.

States expand use of LIHEA funds

Compared to prior federal energy assistance programs, the LIHEA block grant allowed states to use funds for a broader range of activities to help eligible households meet home energy costs. Aided by this expanded flexibility and increased federal funding under the block grant, states have altered how energy assistance funds are spent. Although the greatest proportion of funds overall were used for heating assistance both in 1981 and 1983, the share of funding for this area decreased in 12 of the 13 states. In addition to transferring energy funds to SSBG (see p. 10), states used their new flexibility to increase funding for crisis assistance, begin supporting weatherization, and carry over energy funds into the next year.

By 1983, all 13 states chose to exercise their new authority to use up to 15 percent of their block grant funds to support weatherization, with 8 states using between 10 and 15 percent for this activity. Also, 11 states increased funding for crisis assistance between 1981 and 1983, and by the latter year, spending for this area in 9 states exceeded the prior categorical limit of 3 percent of a state's total award. Additionally, most states took advantage of their new opportunity to carry over LIHEA block grant funds into future years, with 10 states carrying over more than $78 million into 1983, and 9 states estimating a total carryover of $67 million into 1984. However, funding for cooling assistance did not increase for states providing such assistance as a separate component between 1981 and 1983, despite the removal of a previous requirement that such assistance be medically necessary.

ED block grant gives state and local education agencies new roles in funding decisions

Under the ED block grant (chapter 2 of the Education Consolidation and Improvement Act of 1981), states were required to pass on at least 80 percent of their allocations to local education agencies (LEAs), which had virtually complete discretion over how to use these funds. Thus, state authority over chapter 2 funds was limited to deciding how to use the remaining 20 percent and devising a formula to distribute funds to LEAs. State officials reported that funds retained by the 13 states were used to support activities similar to those funded under the prior categorical programs. Distribution formulas varied greatly by state, although each was based on enrollment, as required by law.

While enrollment was the key factor in the distribution formulas for all 13 states, the degree of reliance on enrollment varied. For the 10 states where data were available, the percentage of funds distributed based on enrollment ranged from 40 percent in Massachusetts to 95 percent in Mississippi. However, the influence of enrollment was clearly predominant, with 7 of the 10 states distributing at least 60 percent of chapter 2 funds based on this factor.

In addition to using enrollment, all 13 states adjusted their formulas as allowed by law to provide higher per pupil allocations to LEAs having the greatest numbers or percentages of children whose education imposes a higher than average cost. Use of such high-cost factors varied among the 13 states, but all included between one and six in their formulas. The most frequently used factors (used by five states each) were: (1) students eligible for Elementary and Secondary Education Act Title I funds directed toward educationally disadvantaged children, (2) children living in sparsely populated areas, and (3) students with limited English-speaking abilities.

Eleven of the 13 state education agencies retained the full 20 percent of the state's chapter 2 allocation for their own use in school year 1982-83, while California and Pennsylvania retained 19.5 and 17.3 percent, respectively. States were allowed to use these funds in three broad categories: (1) basic skills development, (2) education improvement and support services, and (3) special projects. Although it was not practical to compare in detail the use of chapter 2 funds and prior categorical funds, state officials said they were continuing to fund activities similar to those funded under the prior categorical programs, with an estimated 55 percent of school year 1982-83 funds being used for education improvement and support services.

Ninety-eight percent of LEAs in the 13 states we visited received chapter 2 funds for school year 1982-83. We estimated that these agencies used over 50 percent of these funds for instructional materials and equipment, while over 25 percent were used for salaries (the largest single expenditure), primarily by large LEAs. In general, program activities supported by LEAs were similar to those supported under the prior categorical programs.

WHAT CONCLUSIONS CAN GAO MAKE CONCERNING BLOCK GRANT FUNDING TRENDS IN THE 13 STATES?

The federal funding reductions accompanying block grant implementation were mitigated by a unique set of circumstances, primarily the overlapping awards from the prior categorical programs and the additional moneys made available through federal emergency jobs legislation. These factors, along with increased state contributions and transfers between block grants, helped promote more fiscal stability than would otherwise have been possible given the reductions in federal funding.

However, the inability of available funding to keep pace with inflation and states' desires to exercise their expanded authority contributed to numerous changes in the funding patterns established under the prior categorical programs. Although federal funding for the block grants stabilized during 1983 and 1984, states are likely to be confronted with rising program costs and increased demands for services. As a result, the next few years will be pivotal ones for the block grant programs and the people they serve, as states and their constituencies debate how to set program priorities and allocate funds to meet recipient needs as well as whether, and to what extent, state funds should contribute to maintaining program services.

GAO REPORTS ISSUED TO DATE ON IMPLEMENTATION OF BLOCK GRANTS CREATED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981

States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program (GAO/RCED-83-186, Sept. 8, 1983).

Maternal and Child Health Block Grant: Program Changes Emerging Under State Administration (GAO/HRD-84-35, May 7, 1984).

States Use Added Flexibility Offered by the Preventive Health and Health Services Block Grant (GAO/HRD-84-41, May 8, 1984).

States Have Made Few Changes in Implementing the Alcohol, Drug Abuse, and Mental Health Services Block Grant (GAO/HRD-84-52, June 6, 1984).

States Fund an Expanded Range of Activities Under Low-Income Home Energy Assistance Block Grant (GAO/HRD-84-64, June 27, 1984).

States Use Several Strategies to Cope With Funding Reductions Under Social Services Block Grant (GAO/HRD-84-68, Aug. 9, 1984).

Community Services Block Grant: New State Role Brings Program and Administrative Changes (GAO/HRD-84-76, Sept. 28, 1984).

Federal Agencies' Block Grant Civil Rights Enforcement Efforts: A Status Report (GAO/HRD-84-82, Sept. 28, 1984).

Education Block Grant Alters State Role and Provides Greater Local Discretion (GAO/HRD-85-18, Nov. 19, 1984).

Public Involvement in Block Grant Decisions: Multiple Opportunities Provided But Interest Groups Have Mixed Reactions to State Efforts (GAO/HRD-85-20, Dec. 28, 1984).

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